INTERSTATE DEPARTMENT STORES, INC.

NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDING

JANUARY 31, 1937

April 10, 1937.

To the Stockholders of
INTERSTATE DEPARTMENT STORES, INC.:

Submitted herewith are the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1937 and for the fiscal year then ended.

The consolidated net profit for this period was $882,001.80. This is equivalent to $35.56 per share on the Preferred Stock and to $3.22 per share of Common Stock (exclusive of those shares held in the Company's treasury) after dividend requirements on the Preferred Stock. The earnings of the Company in the preceding fiscal year were $442,437.90, equivalent to $1.24 per share of Common Stock (exclusive of those shares then held in the Company's treasury) after current dividend requirements on the Preferred Stock. The number of shares of Common Stock outstanding and not held in the Company's treasury increased during the fiscal year from 216,762 to 219,592.

The accompanying Consolidated Balance Sheet shows the ratio of current assets to current liabilities as of January 31, 1937 to be 2.78 to 1, compared with such ratio of 3.58 to 1 as of January 31, 1936. Net working capital decreased during the year by $11,336.78, from $3,481,528.50 to $3,470,191.72.

Year-end inventories, including goods in transit, were valued at $3,958,613.70 as determined by the retail method of inventory, an increase of $980,575.65 above the $2,978,038.05 at the close of the preceding fiscal year. Analysis of inventories on January 31, 1937 showed 94.33% was one year old or less, compared with 93.13% on January 31, 1936. Adequate reserves have been provided for merchandise over one year old.

Customers Accounts Receivable, after reserves, provided on the same basis as in the preceding year, were $731,577.94 on January 31, 1937, an increase of $305,076.32 over 1936. This is largely due to continued increase in sales on larger items of household furnishings and electrical appliances which are generally sold on deferred payment terms and to continued increase of sales on the layaway plan. While the accounts receivable have increased the stores continue to maintain the policy of being predominantly cash stores.

During the year ended January 31, 1937, sales in the 40 stores were $28,008,524.48, including sales in leased departments, an increase of $4,070,075.71 or 17% above the sales of the preceding year. No stores were opened during the year but alterations and improvements to equipment and plants were made in a number of stores and several were enlarged. The total expenditures for this amounted to $196,750.98. In this amount is included sums to restore operating facilities in the stores damaged by floods in the Spring of 1936, which damages were fully covered by insurance.

Floods caused damage to buildings, equipment and merchandise and the temporary closing of three stores in the Spring of 1936, and five stores in January, 1937. Full recovery of such damages and losses in profits from these causes has been received from insurance. Such insurance is still in force.

During the fiscal year there were distributed 2,830 shares of Common Stock of the Company held in its treasury, previously approved by stockholders for such purpose, in connection with additional compensation payable on earnings for the fiscal year 1935 under the contracts of employment with principal executive officers and under the contract for advisory services with Lehman Brothers which terminated on January 31, 1936.

On October 26, 1936, stockholders approved contracts for the payment to members of the Executive Committee, other than principal executive officers, for services during the fiscal year 1936 and also approved the basis for the payment of additional compensation to principal executive officers and other members of the Executive Committee based upon earnings for the fiscal year 1937, at a rate not exceeding 10% of the net earnings after dividend requirements on the Preferred Stock. For the year 1936, 6,442 shares of Common Stock of the Company, held in its treasury, have been paid to principal executive officers and other members of the Executive Committee pur-

suant to the contracts so approved. For the fiscal year 1937 the following one year contracts have been made at annual rates of payment plus additional compensation based upon earnings after dividend requirements on the Preferred Stock: with Henry Gessner, General Manager, $27,000 plus 3.2% of such earnings; with Benjamin Volen, Store Operations Manager, $23,000 plus 3.0% of such earnings; with Philip I. Carthage, Controller, $15,000 plus 1.0% of such earnings; and arrangements were made with the three other members of the Executive Committee, namely, Ray C. Kramer, Chairman, Will I Levy, Secretary, and Harold J. Szold, at an annual rate of compensation for the three, aggregating $24,000 and 2.8% of such earnings. The additional compensation in each case is payable in Common Stock of the Company now remaining in the Company's treasury at the rate of $30 per share, except that Messrs. Kramer, Szold and Levy may elect to accept additional compensation payment in cash instead of treasury Common Stock.

During the fiscal year 1936 the required $7.00 dividend was paid to preferred stockholders and $2.75 per share was paid on the outstanding Common Stock of the Company, making the total dividend payments for the fiscal year $777,478.00.

By reason of the increased sales during the Fall season and the increase in customers' accounts receivable arising from an increased volume of business, the Company during the Fall of 1936 borrowed from banks so as to finance peak season purchases. Continued increases in sales now requiring higher inventories and creating additional receivables have caused the Company to borrow from banks again this Spring. The continuation of sales at levels higher than in prior years makes advisable permanent financing to carry the larger inventories and receivables necessitated thereby.

The high rate of Federal taxes on profits not distributed to stockholders makes it extremely costly to retain any considerable portion of earnings for additional working capital. The Company is considering plans to raise additional working capital through a sale of additional shares of its Common Stock, and pursuant to the plan it is contemplated that there will be issued to the holders of Common Stock rights to subscribe to the additional shares at a price below the market and in a ratio to be hereafter determined. It is expected that these rights and additional shares will be listed for trading on the New York Stock Exchange and that the issue of additional shares will be underwritten to insure that the Company may secure the entire amount of additional capital deemed advisable.

At the annual meeting of stockholders to be held on April 26, 1937, the stockholders will be asked to authorize an increase in the authorized shares of the Common Stock of this Company to 320,000 shares and thereafter and upon registration with the Securities and Exchange Commission of the additional shares contemplated to be issued, details will be transmitted to those stockholders to whom such rights will be granted to subscribe for additional shares of the Common Stock.

In order to broaden the representation of stockholders and to invite other men of broad business experience and judgment to become members of the Board, the directors at a recent meeting amended the By-Laws of the Company to increase the number of directors from 10 to 13.

The directors also recently amended the By-Laws so that, commencing with the year 1938, the annual meetings of the Company will be held on the second Tuesday in May of each year instead of April 25th. The purpose of this amendment was to afford ample opportunity in the future for the completion of the Company's annual statement by the auditors well in advance of the date of the annual meeting.

The Annual Meeting of Stockholders will be held at the office of the Company, at 111 Eighth Avenue, New York, N. Y., on the 26th day of April, 1937 at 2 o'clock P. M., New York City Daylight Saving Time, notice of which meeting is enclosed.

The Management earnestly requests the presence of all stockholders who can conveniently attend this meeting. If your attendance is not possible, it is asked that the enclosed proxy be signed and forwarded as promptly as possible.

Very truly yours,

HENRY GESSNER, *President*

S. D. LEIDESDORF & CO.

CERTIFIED PUBLIC ACCOUNTANTS

125 PARK AVENUE

NEW YORK, N. Y.

April 9, 1937.

To the Board of Directors,

INTERSTATE DEPARTMENT STORES, INC.

We have made an examination of the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1937, and of the consolidated statements of surplus and profit and loss for the year ended January 31, 1937. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of surplus and profit and loss, together with the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position at January 31, 1937, and the consolidated results of their operations for the year then ended.

S. D. LEIDESDORF & CO.

INTERSTATE DEPART

AND SUBSIDIAR

CONSOLIDATED BALANCE SHE

ASSETS

Current Assets:			
Cash on hand and in banks			$ 604,833.60
Accounts receivable—Customers:			
Charge accounts	$ 103,726.01		
Layaway, Will Call and C. O. D. accounts	264,722.67		
Deferred payment accounts secured by conditional sales contracts	440,445.31		
	$ 808,893.99		
Less: Reserves	77,316.05	$ 731,577.94	
Due from insurance companies, vendors and others	$ 128,272.63		
Less: Reserves	9,814.45	118,458.18	850,036.12
Merchandise inventories, certified by the management as to quantities and marketable condition and as to valuation at the lower of cost or market		$3,742,045.72	
Merchandise in transit		216,567.98	3,958,613.70
Total Current Assets			$5,413,483.42
Other Assets:			
Deposits in closed banks, less reserve		$ 4,503.63	
Advances to employees		2,021.95	
Miscellaneous other assets, including rent deposits, investments, due from landlord, etc., less reserve		59,585.90	66,111.48
Fixed Assets—At Cost:			
Land and buildings	$ 752,000.00		
Less: Reserve for depreciation	56,565.63	695,434.37	
Alterations and improvements to leased premises	$ 587,662.92		
Less: Reserve for depreciation	287,503.99	300,158.93	
Furniture and fixtures	$1,375,309.06		
Less: Reserve for depreciation	760,779.41	614,529.65	
Delivery equipment	$ 9,432.50		
Less: Reserve for depreciation	2,736.57	6,695.93	1,616,818.88
Leaseholds		$ 247,897.12	
Less: Reserve for amortization		100,293.98	147,603.14
Deferred Charges:			
Prepaid expenses, unexpired insurance, etc.		$ 173,420.69	
Supplies		63,199.34	236,620.03
			$7,480,636.95

NOTE A—Shares of Common Stock reacquired by purchase are considered treasury stock. A
charged to earned surplus. In accordance with the terms of agreements previously app
at the aforesaid value of $5.00 per share were allocated under said agreements to the

NOTE B—The shares reacquired are reserved under compensation agreements approved by stockh

On or before the 31st day of December, 1937 the Company is obligated to acquire by redempti
annually thereafter of the largest amount in par value of such Preferred Stock which shall ever

The above statement is subject to final determination of Federal and state income and sta

TMENT STORES, INC.

Y COMPANIES

EET AS AT JANUARY 31, 1937

LIABILITIES

Current Liabilities:			
Accounts payable—trade			$1,070,310.01
Accounts payable for merchandise in transit			216,567.98
Accrued salaries and expenses			146,786.34
Accrued Federal, State and other taxes			405,389.11
Sundry creditors and accruals			53,513.26
Notes payable on real estate and accrued interest			30,100.00
Current installment of first mortgage 5% gold bonds, Series A, and accrued interest			20,625.00
Total Current Liabilities			$1,943,291.70
First mortgage 5% gold bonds, Series A, due annually to March 1, 1949		$ 270,000.00	
Less: Current installments included above		15,000.00	255,000.00
Total Liabilities			$2,198,291.70
Accrued additional compensation—payable in Common Stock—Note A			32,210.00
Reserves for replacement of fixtures and for equalization of rent			31,087.32
Minority interest in subsidiary company			6,292.64
Capital Stock:			
Preferred Stock 7% Cumulative, par value $100.00 per share (redeemable at $110.00 per share, plus accrued dividends):			
Authorized, issued and outstanding—24,800 shares		$2,480,000.00	
Common Stock, without par value:			
Authorized .... 240,000 shares			
Issued .... 233,602 shares	$1,203,531.53		
Less: Reacquired ..... 14,010 shares—Note B	70,050.00		
Outstanding .... 219,592 shares		1,133,481.53	3,613,481.53
Surplus:			
Earned Surplus—per Statement No. 2		$ 368,641.31	
Appropriated Surplus—per Statement No. 2		70,050.00	
Capital Surplus—per Statement No. 2		1,160,582.45	1,599,273.76
			$7,480,636.95

s at January 31, 1933 the excess of cost of such treasury stock over $5.00 per share was
roved by stockholders, 6,442 shares of such treasury stock carried on the books of the Company
payment of additional compensation as provided in said contracts.

olders on April 25, 1934 and October 26, 1936.

on or purchase 100 shares of its Preferred Stock for retirement and at least 3% (975 shares)
have been issued and outstanding.

te franchise taxes.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS AS AT JANUARY 31, 1937

	Earned Surplus	Appropriated Surplus	Capital Surplus
BALANCE, February 1, 1936	$259,614.56	$84,200.00	$1,196,103.98
Transfer to earned surplus of appropriated surplus applicable to 2,830 shares of Common Stock, without par value, distributed during the year	14,150.00	*14,150.00**	
To adjust the capital Common Stock account to reflect the proceeds from the sale in 1929 of 1160 shares of Common Stock in accordance with resolutions of the Board of Directors adopted at the time of the issuance of such shares whereby all of such proceeds were declared to be capital. The excess of such proceeds over $5.00 per share was at that time credited on the books to capital surplus			*35,521.53**
Net adjustment of expenses of a subsidiary company dissolved in prior year	1,878.52		
Net profit for the year ended January 31, 1937—per Statement No. 3	882,001.80		
Provision for prior years' Federal income taxes	*11,525.57**		
Dividends paid on Preferred Stock—four quarterly dividends	*173,600.00**		
Dividends paid on Common Stock	*603,878.00**		
BALANCE, January 31, 1937—per Statement No. 1	$368,641.31	$70,050.00	$1,160,582.45

Italics * denote red figures.

Interstate Department Stores, Inc.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED JANUARY 31, 1937

Net Sales:		
Owned departments	$23,999,982.75	
Leased departments	4,008,541.73	$28,008,524.48
Cost of Goods Sold, Selling, Operating and Administrative Expenses, exclusive of depreciation		26,852,218.75
		$ 1,156,305.73
Less: Depreciation on buildings, alterations and improvements, fixtures, equipment, etc.	$ 188,442.80	
Amortization—leaseholds	11,382.17	199,824.97
		$ 956,480.76
Other Income:		
Interest and other non-trading income		92,969.31
		$ 1,049,450.07
Proportion of profit of a subsidiary company applicable to its minority interest		371.71
Net Profit Before Provision for Federal Income and Excess Profits Taxes and Surtax on Undistributed Profits		$ 1,049,078.36
Provision for Federal Income and Excess Profits Taxes		149,957.88
Net Profit Before Provision for Surtax on Undistributed Profits		$ 899,120.48
Provision for Surtax on Undistributed Profits		17,118.68
Net Profit—Statement No. 2		$ 882,001.80

The additional compensation payable in treasury Common Stock amounting to 6,442 shares has been included in the above operations at the value carried on the books of $5.00 per share, as per Note A to balance sheet.

The above statement is subject to final determination of Federal and state income and state franchise taxes.

DIRECTORS

Philip I. Carthage	Will I Levy
Christian E. Dahlgren	Paul M. Mazur
Henry Gessner	Albert Parker
Ray C. Kramer	Harold J. Szold
David Leventhal	Benjamin Volen

OFFICERS

President .... Henry Gessner

Executive Vice-President .... Benjamin Volen

Vice-President .... Will I Levy

Treasurer .... Philip I. Carthage

Secretary .... Albert Parker

Assistant Secretary .... Frederick Cord